Ref. 22846, rev. 1

24 March 2009

EFTA Secretariat – Financial reports 2007

This document includes the following:

1. Excerpt from the Council Summary Record of 18 December 2008
2. Letter from EFTA Board of Auditors (EBOA) on the Audit of the 2007 Accounts
3. Audit Report –EFTA Secretariat
4. Statement of Account 2007
5. Council letter to EBOA on the Audit of the Accounts
6. Compliance Audit of the EFTA Secretariat and Financial Mechanism Office
7. Council letter to EBOA on the Compliance Audit

EUROPEAN FREE TRADE ASSOCIATION

[redacted]

Ref. 21833

Distribution: EFTA

15 December 2008

TENTH MEETING OF THE COUNCIL

Geneva, 18 November 2008

SUMMARY RECORD

EXCERPT

Statement of account for 2007

21. Delegations approved the Accounts for 2007, ref. 1081932, and discharged the Secretary-General of his responsibilities for the financial period in question.

EFTA

EUROPEAN FREE TRADE ASSOCIATION

BOARD OF AUDITORS

The Chairman

10 June 2008
11/2008
EFTA ref.1084200

Distribution Special

Your Excellency,

Audit of the 2007 Accounts

At its last meeting in Brussels on 27 and 28 May 2008, the EFTA Board of Auditors (EBOA) reviewed the accounts of the EFTA Secretariat covering the period 1 January to 31 December 2007. On the basis of the audit report of the mandated external auditor and complementary information given by the Administration, EBOA decided to issue the attached certificate for the 2007 accounts.

Furthermore, EBOA would like to bring the following matters to the attention of the EFTA Council:

1. EBOA notes that some of the archived documentation, such as employment contracts and final rent agreements, were in some cases missing. A higher number of human errors compared to previous years was also noted. EBOA expects an improvement in this regard for the 2008 accounts.

2. EBOA notes that Switzerland paid its contribution to the budget with a delay of almost four weeks. In order to comply with the Financial Regulations and Rules,

His Excellency Ambassador Luzius Wasescha
Chair of the EFTA Council
Permanent Mission of Switzerland
to the WTO and EFTA
Rue de Varembé 9-11 (5th floor)
CH - 1211 Geneva 20 Switzerland

cc: Members of the EFTA Council
Mr. Kåre Bryn, Secretary General, EFTA
Members of the Standing Committee

EBOA recommends that the EFTA Secretariat claims the corresponding interest due from Switzerland.

3. As regards the FMO, EBOA notes that for some of the FMO fixed assets, the activated costs relate to consultancy services. Such expenses do however not meet the criteria for activation in accordance with International Financial Reporting Standards. Therefore EBOA suggests that FMO reconsiders what amounts should be activated.

4. In 2007 the average stay of employees at the EFTA Secretariat has been 3.9 years, and 3.7 in 2008. EBOA is concerned about this very high turn-over and would like to know what precautionary measures the Secretary-General foresees to take in order to lessen the potential negative effects of this high turnover.

5. As you are aware of, compliance audits were performed on all three EFTA institutions in parallel of the financial audits. A report of the compliance audit for the EFTA Secretariat will be sent out shortly.

6. EBOA would like to receive a reply to this letter by 1 September 2008, as a meeting planning the audit of the accounts for 2008 will take place early in the autumn. As a response to its recommendations in this letter, the Board kindly requests, that a list of all actions foreseen be included in the reply.

Yours respectfully,

Per A Engeseth

Per A. Engeseth
Chairman of the EFTA Board of Auditors

E U R O P E A N   F R E E   T R A D E   A S S O C I A T I O N

8 June 2008
08/2008
EFTA ref. 1084127
1 Annex

Distribution Special

AUDIT REPORT - EFTA SECRETARIAT

CERTIFICATE OF THE BOARD OF AUDITORS ON THE AUDIT OF THE ACCOUNTS OF THE EFTA SECRETARIAT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2007

1. The Board of Auditors has examined the accounts of the EFTA Secretariat for the period 1 January to 31 December 2007 as outlined in its Rules of Procedure and the Terms of Reference of the Financial Regulations. The audit is carried out according to generally accepted auditing principles and standards, including such tests and other supporting evidence as considered necessary. The audit work has been performed by Deloitte on behalf of the Board of Auditors on basis of the contract between the two parties.

2. The Board has reviewed the transactions reflected in the books and have controlled whether these are in accordance with the Financial Regulations and Rules. The various items on the Balance Sheet have been checked and monies on deposit in banks have been verified. Other assets and liabilities as presented in the Balance Sheet have been verified by procedures considered appropriate under the circumstances. The examination of expenditures and income has been carried out on a test basis to the extent considered necessary.

3. The EFTA Board of Auditors states that:

   (a) the financial statements give a true and fair view of the financial position as at the end of the period and the results of the operations for the period;

   (b) the financial statements were prepared in accordance with the stated accounting principles;

   (c) the accounting principles were applied on a basis consistent with that of the preceding financial year;

   (d) transactions were in accordance with the Financial Regulations and Rules of the Secretariat.

SIGNATURES OF THE BOARD OF AUDITORS

Per A. Engeseth
(Norway)
Chairman

Arthur Taugwalder
(Switzerland)
Vice-Chairman

Sveinn Arason
(Iceland)
Member

Annex: EFTA Secretariat Financial Statement for the year ended 31 December 2007 and Auditor's Report by Deloitte

EUROPEAN FREE TRADE ASSOCIATION

[redacted]

Ref. 1081932
27 February 2008

Distribution: EFTA

Statement of Account

Financial Year 2007

Note by the Secretariat

1. In accordance with Financial Regulation 14, the Secretary-General shall submit the final accounts for the period just ended to the Council as soon as practicable following the close of the period, and no later than three months after the end of the financial year in question.

2. The EFTA Board of Auditors is entrusted with the audit of the accounts. The Board's external auditor, the international auditing firm Deloitte, plans to carry out the actual audit of the accounts for the financial year ending 31 December 2007 in the period 3 – 14 March 2008.

3. Once the EFTA Board of Auditors has received the report from Deloitte, the Board will report back to the EFTA Council. This shall be no later than six months after the end of the financial year in question.

4. For any further information about EFTA's activities during 2007, reference is made to the Performance and Budget report 2007, Doc. No 1081913.

I. Main Activities

5. The EFTA Secretariat's activities centre on the management and monitoring of: (i) the relationships among the EFTA States on the basis of the EFTA Convention; (ii) the worldwide network of free trade and partnership agreements between EFTA States and non-EU countries; and (iii) the European Economic Area (EEA) Agreement which enables Iceland, Liechtenstein and Norway to participate in the EU's Internal Market.

6. The servicing of the EFTA Council and its committee structure, as well as of the Joint Committees relating to the Free Trade Agreements and Declarations on cooperation with third countries, is carried out with the support of the Secretariat in Geneva.

7. The EFTA Council met twelve times at official level (Heads of Permanent Delegations to EFTA in Geneva) in 2007 including two Ministerial Council meetings. Norway held the EFTA Chair during the first six months, and Iceland for the second six months of the year.

8. Under the EEA Agreement, the main body of work consists of monitoring the preparation of legislation and policy on the EU side with a view to giving timely input,

preparing for the incorporation of legislation into the EEA Agreement. The Secretariat services committees and working groups under the Standing and the Joint Committee of the EFTA States.

9. In the area of free trade relations, comprehensive support is provided from the EFTA Secretariat's Geneva headquarters to Member States in regard of the preparation and conduct of negotiations on Free Trade Agreements as well as of the implementation of such agreements.

10. The EFTA Statistical Office in Luxembourg co-ordinates EFTA's participation in Eurostat and provides statistical support for various other EFTA purposes.

II. Review of Financial Results

11. The budget for the period 1 January to 31 December 2007 was adopted by the EFTA Council on 13 December 2006 in Decision No. 5 of 2006 (Doc. No 16160 of 14 December 2006). The approved net budget for the financial year 2007 totalled EUR 10,218,437 and CHF 7,782,577 on the basis of which amount the contributions of Member States were assessed and set out in Decision No. 6 of 13 December 2006 (Doc. No. 16161 of 14 December 2006).

12. The financial year 2007 has been the fourth year with the new budgeting method as decided by the EFTA Council on 17 December 2003 in Decision No. 7 of 2003. The activities for the Secretariat have been defined in the Performance Plan for the budget year 2007 (Doc. No. 1069383).

13. The total expenditure for the financial year ended 31 December 2007 totalled CHF 24,413,773 (CHF 23,333,084 in 2006) against a total income of CHF 25,151,473 (CHF 23,572,432 in 2006), leading to a budget surplus of CHF 737,700 before financial items. (CHF 239,348 in 2006). Adding other items, i.e. write-offs, interest income, realised and unrealised exchange rate differences and bank charges, amounting to CHF 205,248 (CHF 58,368 in 2006), the surplus amount increased to CHF 942,949 (CHF 297,734 in 2006).

14. The surplus is due to economies made in both Part I and Part II. The possibility of a surplus, and how to deal with it, is foreseen in the Financial Regulations and Rules (see Regulations 10 and 11).

15. Net results of Part I and part II were as follows:

a) The net expenditure in Part I was CHF 19,647,869, or 95.4% of the budget. A transfer of CHF 459,000 was made from the Reserve fund Part I to cover unforeseen costs. These costs were related to the negotiations with Peru/Colombia (174,000), MCE leadership courses (45,000), maternity leave (200,000) and the HR/Payroll system (40,000). The total spending gave a surplus of CHF 938,751.

b) The net expenditure in Part II was CHF 3,437,035, or 99.9% of the budget. The activities within the fields of customs and technical co-operation were higher than foreseen and a transfer of CHF 70,000 was made from the Reserve Fund

Part II to cover the additional costs. The total spending gave a surplus of CHF 4,193.

The overview of the actual expenditure and budget is as follows:

Part	Budget 2007	Transfer 2007	Total 2007	Actual 2007	Actual in %	Remainder	In %
Part I	20,586,620	-	20,586,620	20,312,118	98.7%	274,502	1.3%
Part II	3,441,228	-	3,441,228	3,507,035	101.9%	(65,807)	-1.9%
Total Expenditure as Budgeted:	**24,027,848**	**-**	**24,027,848**	**23,819,153**	**99.1%**	**208,695**	**0.9%**
Add Reimbursed Expenditure	606,564		606,564	594,620	98.0%	11,944	
Total Expected Expenditure	**24,634,412**	**-**	**24,634,412**	**24,413,773**	**99.1%**	**220,639**	**0.9%**
Part I							
Contributions	20,586,620		20,586,620	20,586,625	100.0%	5	0.0%
From Reserve Fund Part I				459,000		459,000	
Part II						-	
Contributions	3,441,228		3,441,228	3,441,228	100.0%	-	0.0%
From Reserve Fund Part II				70,000		70,000	
Total Income as Budgeted:	**24,027,848**	**-**	**24,027,848**	**24,556,853**	**102.2%**	**529,005**	**2.2%**
Add Reimbursements	606,564		606,564	594,620	98.0%	(11,944)	
Total Expected Income	**24,634,412**	**-**	**24,634,412**	**25,151,473**	**102.1%**	**517,061**	**2.1%**
Net Result Before Financial Items	-	-	-	737,700		737,700	
Financial Items, Net	-	-	-	205,249		205,249	
TOTAL 2007	**-**	**-**	**-**	**942,949**		**942,949**	**3.9%**
Transferred to Reserve Funds				**746,605**			
BREAKDOWN PART I/II							
Total Part I	20,586,620	-	20,586,620	19,647,869	95.4%	938,751	4.6%
Total Part II	3,441,228	-	3,441,228	3,437,035	99.9%	4,193	0.1%
Contributions	(24,027,848)	-	(24,027,848)	(24,027,853)	100.0%	5	0.0%
TOTAL 2007	**-**	**-**	**-**	**(942,949)**		**942,949**	

Special Funds

16. In accordance with the Financial Regulation and Rules, the Secretariat makes the status of the Special Funds explicitly clear as they are on the 31 December of each year. At present, there are four Special Funds in EFTA's accounts:

1. Special Fund 1: Financial Instrument / Mechanism

Net assets on 31/12/2007:	CHF -157,719 / EUR -99,207 (CHF 101,023 in 2006)
Legal basis:	Decisions of the Financial Instrument / Mechanism Committee based on a budget proposal of the EFTA Secretariat and approved by the European Commission.
Operational procedures:	EFTA operates the office for the Financial Mechanism Liaison Officer and his assistant. EFTA sends invoices to the European Investment Bank in Luxembourg in accordance with the approved budget.
Establishing date:	1 July 1995
Comments:	Net assets have been evaluated at the date of the Balance Sheet. The balance belongs to the EEA EFTA Member States and the European Commission. The negative balance is covered by positive balances in the other special funds. The FMO is informed and will adjust this balance.

2. Special Fund 4: Statistical Cooperation

Net assets on 31/12/2007:	CHF 12,590 / EUR 7,919 (CHF 1,959 in 2006)
Legal basis:	Article 82(1) (a) of the EEA Agreement; Budget line B-5600 and Point 5 of Protocol 30 of the EEA Agreement. Exchange of letters between Eurostat and the EFTA Secretariat establishing a mechanism to remove this particular matter from the general EU programmes.
Operational procedures:	EFTA recruits national experts from the EFTA Member States and covers all related costs. EFTA makes service contracts with Eurostat in Luxembourg in order to recover costs.
Establishing date:	1 July 1995
Comments:	Net assets have been evaluated at the date of the Balance Sheet. The balance belongs to the EEA EFTA Member States.

3. Special Fund 6: EEA Financial Mechanism

Net assets on 31/12/2007:	CHF 362,579 / EUR 228,066 (CHF 870,757 in 2006)
Legal basis:	Decision of the Standing Committee of the EFTA States No. 1/2004/SC of 5 February 2004.
Operational procedures:	The Financial Mechanism Office is administratively part of the EFTA Secretariat. The Administrative budget is made by the Secretariat and approved by the Financial Mechanism Committee
Establishing date:	1 May 2004
Comments:	Net assets have been evaluated at the date of the Balance Sheet. The balance belongs to the EEA EFTA Member States.

4. Special Fund 7: Norwegian Financial Mechanism

Net assets on 31/12/2007:	CHF 291,348 / EUR 183,261 (CHF 810,131 in 2006)
Legal basis:	Decision of the Standing Committee of the EFTA States No. 1/2004/SC of 5 February 2004.
Operational procedures:	The Financial Mechanism Office is administratively part of the EFTA Secretariat. The Administrative budget is made by the Secretariat and approved by the Financial Mechanism Committee.
Establishing date:	1 May 2004
Comments:	Net assets have been evaluated at the date of the Balance Sheet. The balance belongs to Norway.

Special Cooperation Programmes

17. EFTA participates in a number of cooperation programmes with the EU. In monetary terms, standardisation programmes are the most important ones, not only because they cover the largest sums, but also because they carry multi-year obligations. It is recalled that the EFTA-EU cost split of standardisation is based on the 5%-95% rule.

18. Up to 1 July 1995, nearly all cooperation programmes were modelled on the percentage cost splitting rule (14%-86% for EFTA at 7). After the new EFTA came into existence on that date, it has become even more common for EFTA to be more active in the practical implementation of a programme, using 5% as a target level of contributions to that programme. In real terms EFTA is carrying out specific tasks within the programme, supervising these tasks and financing them. Examples of such cooperation programmes are: Medstat, the statistical PHARE programmes, Training of European Statisticians and customs cooperation programmes.

Financial Result 2007

19. The financial year 2007 resulted in a surplus of CHF 742,412 in Part I and CHF 4,193 in Part II, giving a total surplus of CHF 942,949. In accordance with the introduction of the new budgeting method and the following revision of Financial Regulation 10, budgetary surpluses for Part I and Part II not exceeding 5% of the budget for that Part shall be transferred to the Reserve Funds for Part I and Part II respectively. Surpluses exceeding 5% shall be transferred to the Surplus Account pending a decision by the Council on their use. The surplus for 2007 has been distributed as follows:

	Reserve Fund Part I	Reserve Fund Part II	Member States	Total
Part I	742,412		196,344	938,756
Part II		4,193		4,193
Total	**742,412**	**4,193**	**196,344**	**942,949**

Member States: the Status

20. The current status is as follows:

Source	Iceland	Liechtenstein	Norway	Switzerland	TOTAL
Surplus Part I 2004	0	0	0	0	0
Surplus Part II 2004	14,424	3,474	163,889	149,035	330,822
Returned to Member States 2004	0	0	-81,945	0	-81,945
Transfer to Part II fund 2004	-7,212	-1,737	-81,945	-74,518	-165,411
Surplus Part I 2005	0	0	0	0	0
Surplus Part II 2005	22,008	5,475	268,882	235,232	531,598
Returned to MS, rent comp FMO	1,592	225	33,406	0	35,224
Transfer to Part II fund 2005	-4,140	-1,030	-50,580	-44,250	-100,000
Surplus Part I 2006	0	0	0	0	0
Surplus Part II 2006	11,824	2,993	151,073	127,512	293,402
Returned to Member States 2007	-7,212	0	0	0	-7,212
Surplus Part I 2007	8,325	1,983	102,708	83,328	196,344
Surplus Part II 2007	0	0	0	0	0
Total	**39,609**	**11,384**	**505,489**	**476,340**	**1,032,823**

The Financial Statements and notes thereto are contained in the following pages.

Balance Sheet 31 December		**2007**			**2006**			
Current Assets	Notes	**Consolidated CHF**	*Geneva CHF*	*Brussels EUR*	**Consolidated CHF** (2007 rate)	*Geneva CHF*	*Brussels EUR*	Consolidate CHF (2006 rate
Cash		**3,311,128**	*3,148,311*	*102,414*	**4,906,148**	*3,298,524*	*1,011,212*	4,861,59
Receivables	4	**1,785,331**	*896,422*	*559,133*	**695,779**	*38,680*	*413,322*	677,56
		5,096,459	4,044,733	661,546	**5,601,927**	*3,337,203*	*1,424,534*	5,539,16
Long-Term Assets								
Fixed Assets	6	**746,462**	*322,080*	*266,940*	**730,715**	*224,594*	*318,356*	716,68
Fixed Assets FMO	6	**971,444**	-	*611,048*	**883,495**	-	*555,727*	859,01
Building Brussels	6	**1,142,494**	-	*718,640*	**1,332,909**	-	*838,413*	1,295,96
Receivables	4	**33,916**	*30,148*	*2,370*	**59,625**	*55,660*	*2,494*	59,51
		2,894,316	*352,228*	*1,598,998*	**3,006,745**	*280,254*	*1,714,990*	2,931,18
Total Assets		**7,990,775**	***4,396,961***	***2,260,545***	**8,608,672**	***3,617,457***	***3,139,524***	8,470,34
Current Liabilities:								
Payables	9	**2,101,184**	*427,666*	*1,052,659*	**1,516,234**	*134,794*	*868,940*	1,477,94
Special Funds	9	**508,799**	-	*320,039*	**1,834,718**	-	*1,154,056*	1,783,87
Building Funds	11	**1,142,347**	-	*718,547*	**1,332,738**	-	*838,305*	1,295,80
Reserve Funds	12	**1,127,838**	*1,127,838*	-	**910,234**	*910,234*	-	910,23
		4,880,167	*1,555,504*	*2,091,246*	**5,593,923**	*1,045,028*	*2,861,300*	5,467,85
Long-Term Liabilities:								
Provision for Programmes	7	**1,209,097**	*1,209,097*	-	**1,209,097**	*1,209,097*	-	1,209,09
Provision for Repatriation	7	**868,690**	*260,931*	*382,286*	**967,084**	*339,967*	*394,463*	949,70
		2,077,787	*1,470,028*	*382,286*	**2,176,181**	*1,549,064*	*394,463*	2,158,80
Total Liabilities		**6,957,954**	*3,025,533*	*2,473,532*	**7,770,104**	*2,594,092*	*3,255,763*	7,626,65
Exchange Rate Difference	16				**5,121**			
NET ASSETS		**1,032,821**			**843,690**			843,69
Surplus Account	11	**1,032,821**			**843,690**			843,69

Statement of Operation and Surplus for the Financial Year Ended 31 December		2007	2006
	Notes	CHF	CHF
INCOME			
Member States Contribution		24,027,853	22,917,603
Other Income:			
Part I		1,053,620	654,829
Part II		70,000	0
Total Income		25,151,473	23,572,432
EXPENDITURE			
Part I		20,906,738	20,286,972
Part II		3,507,035	3,046,112
Total Expenditure		24,413,773	23,333,084
Net Result Before Financial Items		737,700	239,348
FINANCIAL ITEMS			
Interest Income	20	239,241	94,834
Exchange Gains / (Losses)		(7,001)	(18,445)
Interest Expense		0	0
Bank Charges		(26,071)	(18,004)
Write-offs		(920)	0
Amounts Transferred to Surplus Account		0	0
Excess of Income Over Expenditure		942,949	297,734
Opening Surplus Account	11	843,690	862,420
Amount Transferred to/from Surplus Fund	11	(7,212)	(312,132)
Amount Transferred to Reserve Funds	12	(746,605)	(4,332)
Closing Surplus Account		1,032,822	843,690

Cash Flow Statement	Year:	2007	Year:	2006
Excess of income over expenditure for the year	196,344		293,402	
Adjustments for:				
Depreciation	907,137		708,924	
Interest income	(239,241)		(94,834)	
Surplus before working capital changes	864,241		907,491	
Decrease (increase) in current receivables	(1,089,552)		4,064	
Decrease (increase) in long term receivables	25,709		(30,065)	
Increase (decrease) in payables	584,950		42,778	
Increase (decrease) in Special Funds	(1,325,919)		1,198,221	
Increase (decrease) in Building Funds	(190,391)		(185,115)	
Increase (decrease) in Reserve Funds	217,605		(15,380)	
Increase (decrease) in provision for programmes	0		265,411	
Increase (decrease) in provision for repatriation	(98,394)		90,601	
Net cash used in operation activities		**(1,011,751)**		**2,278,006**
Investing activities				
Purchase of property, plant and equipment	(376,383)		(381,512)	
Purchase of property, plant and equipment FMO	(444,035)		(824,927)	
Investments new Office building Brussels	0		0	
Interest income	239,241		94,834	
Net cash provided from (used in) investing activities		**(581,177)**		**(1,111,605)**
Financing activities				
Member States contribution transfer to fund	0		35,224	
Member States contribution transfer from fund	(7,212)		(347,356)	
Net cash provided in (used from) financing activities		**(7,212)**		**(312,132)**
Net increase in cash and cash equivalents		**(1,600,141)**		**854,270**
Cash and cash equivalents at the beginning of the period		**4,906,148**		**4,014,288**
Foreign exchange difference on balance sheet Brussels		5,121		(6,964)
Cash and cash equivalents at the end of the period		**3,311,128**		**4,861,593**

1. Significant accounting policies

The significant accounting polices adopted in the preparation of these financial statements of the EFTA Secretariat are set out below:

(a) Basis of Preparation

The financial statements of the Association have been prepared in accordance with the accounting standards of the present Financial Regulations and Rules of the Association. The statements have been prepared under the historical cost system and are prepared in Swiss francs (CHF).

The present Financial Regulations and Rules were approved by the EFTA Council on 18 December 1997 and entered into force on 31 December 1997. The Regulations have to be approved and amended by the EFTA Council. Since then there have been two amendments, the first in 2002, in part VII – Audit and approval of the accounts and the second in 2004, in parts I, II, III and IV. The second amendment was done as a natural consequence of the introduction of the new budgeting method. The Financial Regulations explicitly state that the statements shall be prepared in accordance with the accounting standards issued by the International Accounting Standards Committee (IASC).

(b) Principles of Combined Statements

The accounting policies have been consistently applied by the two duty stations of the Association, i.e. in Geneva and Brussels (including four staff members and six national experts in Luxembourg as well as one staff member in Paris). All balances and transactions between the duty stations have been eliminated.

(c) Fixed Assets

Until 31 December 1997, in accordance with the previous Financial Regulations and Rules, investment goods were expensed immediately upon delivery. Investment properties were non-existent and no depreciation had been recognised. As of 1 January 1998 this has been changed: assets are stated at their acquisition cost less depreciation using the straight-line depreciation method over the estimated useful lives. Expenditure on repairs or maintenance (leased buildings, computers, furniture, cars, etc.), made to restore or maintain future economic benefits expected from the assets, is recognised as an expense when incurred, while improvements on the same mentioned "items" are capitalised in line with other fixed assets.

The fixed assets recognised at 31 December 2007 are the four EFTA cars in Geneva and Brussels, various IT equipment and non-IT equipment (furniture and infra-structure installations), fitting out of the new office premises in Brussels for the Secretariat and the FMO as well as assets for the FMO which is administratively part of the EFTA Secretariat. The rates of depreciation used are as follows:

Vehicles: 20%
IT-equipment: 33%
Other equipment: 20%
Fitting out offices EFTA: 11.11% (9 years – length of the lease contract)
Fitting out offices FMO: 16.67% (6 years – length of the lease contract)

The assets have been depreciated from the date of acquisition, see also Note 6. For fitting out of offices the actual date of the removal to the premises has been used.

(d) Foreign Currency

(i) Transactions

All transactions are booked in EUR (Brussels) and CHF (Geneva). All exchange rate differences are identified immediately. For reporting reasons all transactions in currencies other than CHF are converted at the rate of exchange used for establishing the budget, 1 euro = CHF 1.5898. For the balance sheet, the rate of exchange used for the budget has been used both for the opening balance (1 January 2007) as well as for closing balance (31 December 2007). This has resulted in an unrealised exchange rate loss for the opening balance which is reflected in the profit & loss (see also note 16).

(ii) Translation of financial statements

The operations of foreign duty stations of the Association are considered an integral part of EFTA's operations. Accordingly, assets and liabilities at foreign duty stations are translated at the rate of exchange used for the budget, 1.5898. Both the opening balance (1 January 2007) as well as the closing balance (31 December 2007) have been converted to CHF using the rate of exchange for the budget. Resulting exchange differences are recognised in operations.

(e) Taxation

The Association is exempt from most taxes at all duty stations, see Note 2. Taxes payable, and non-recoverable, are expensed directly with the goods and services received if the amount is CHF 100 (Switzerland) or EUR 100 (Belgium/Luxembourg) or less, while invoices exceeding CHF 100 or EUR 100 are recovered directly through the supplier. The local tax in Brussels (to cover local utility costs such as garbage collection) is recorded in operations.

Swiss withholding taxes are fully recoverable and are therefore recorded separately among debtors.

(f) Inventories

Inventories are not recorded in the accounts. However lists of inventories of equipment, office supplies and furniture are maintained as part of the depreciation procedure.

(g) Leased Assets

Leases of equipment under which the Association assumes substantially all risks and rewards incidental to ownership are classified as finance leases. Such equipment consists of computers, photocopy machines and fax machines. Other leases are classified as operating leases. Such leases are rental contracts for the office buildings in Geneva and Brussels.

Finance leases are not recognised in the balance sheet and leased assets in general are not depreciated in the accounts. Leased equipment was expensed upon receipt of invoice. Payments made under operating leases are expensed directly to the relevant expense account.

(h) Revenue Recognition

Contributions from Member States are recognised on an accrual basis in accordance with the Budget. Contributions made in euros during 2007 are recognised at the exchange rate of the Budget.

In relation to both the sale of goods and to the rendering of services, revenue is recognised at the date delivery of the goods or services.

2. Taxation

Headquarters Agreements in Switzerland, Belgium, and Luxembourg grant tax exemptions for normal activities with the following exceptions:

Two types of local taxes for the office building in Brussels have to be paid. The amounts of the two taxes in 2007 were EUR 55,225 (CHF 87,797 at the date of the transaction [83,859 in 2006]) for the tax on the rental and EUR 16,698 (CHF 26,546 at the date of the transaction [25,111 in 2006]) for the Regional tax.

Value Added Taxes of amounts less than EUR 100 have to be paid in Belgium and Luxembourg. Purchases of higher amounts are tax-free.

3. Adjustment to opening surplus

No corrections were made to the opening surplus brought forward from 31 December 2006.

4. Receivables

Receivables 31 December		2007			2006			
		Consolidated	*Geneva*	*Brussels*	Consolidated	*Geneva*	*Brussels*	Consolidate
a)	**Current**	**CHF**	***CHF***	***EUR***	**CHF** *2007 rate*	***CHF***	***EUR***	**CHF** *2006 rate*
	Accounts Receivable – Normal Operations	1,485,184	*837,028*	*407,696*	40,307	*1,433*	*24,452*	39,23
	Advances and Loans to Staff Members	13,493	*230*	*8,343*	24,997	*(1,830)*	*16,874*	24,25
	Receivables from Member States	30,289	*0*	*19,052*	0	*0*	*0*	[illegible]
	Prepaid Expenses	256,364	*59,163*	*124,041*	630,476	*39,077*	*371,996*	*614,08*
		1,785,331	*896,422*	*559,133*	695,779	*38,680*	*413,322*	677,56
b)	**Long-Term**							
	Guarantee deposits	33,916	*30,148*	*2,370*	59,625	*55,660*	*2,494*	*59,51*

5. Inventories

Inventory lists of office supplies are maintained, but the aggregate balance at 31 December 2007 of items of less than CHF 1,500 / EUR 1,000 is not recorded among assets. These supplies have already been expensed in previous years.

6. Fixed assets

The carrying value of property and equipment is calculated as follows:

Year: 2007	Vehicles		IT		Other		Total
Cost	***Geneva (CHF)***	***Brussels (EUR)***	***Geneva (CHF)***	***Brussels (EUR)***	***Geneva (CHF)***	***Brussels (EUR)***	***Consolidated (CHF)***
At 1/1	132,830	41,704	391,979	784,401	447,927	230,793	2,652,992
Additions	77,787	-	120,048	71,558	25,686	24,594	376,383
Disposals	132,830		-		-		132,830
Cost at 31/12	77,787	41,704	512,027	855,959	473,613	255,387	3,162,205
Accumulated depr.							
At 1/1	132,830	17,612	342,831	596,306	272,481	124,625	1,922,278
Depr for year	13,861	4,900	40,303	108,879	71,871	33,787	360,635
Disposals	132,830	-	-	-	-		132,830
Exch. Diff.		-		-	-		-
Acc. Depr. 31/12	13,861	22,512	383,134	705,185	344,352	158,412	2,415,743
NBV at 31/12/07	**63,926**	**19,192**	**128,893**	**150,774**	**129,261**	**96,974**	**746,462**

The carrying value of equipment for the Financial Mechanism Office is calculated as follows:

Year: 2007	FMO BRU (CHF)	FMO BRU (€)
Opening carrying value	883,495	555,727
Additions	444,035	279,303
Disposals	-	-
Depreciation	356,086	223,982
Closing carrying value	**971,444**	**611,048**

The carrying value of the fitting out of office premises in Brussels is calculated as follows:

Year: 2007	Building BRU (CHF)	Building BRU (€)
Opening carrying value	1,332,909	838,413
Additions	-	-
Disposals	-	-
Depreciation	190,416	119,773
Closing carrying value	**1,142,494**	**718,640**

7. Provision Funds

7.1 Provision for Repatriation

The Association has a contractual obligation to repatriate all non-locally recruited staff members at the end of their term of service. Based on the present Staff Regulations and Rules, the cost of each staff member has been estimated and provisions recorded assuming an average lifetime of four years in EFTA. The provisions are now in two parts: one for the Geneva-based staff and another for the Brussels/Luxemburg-based staff. These are both calculated in Swiss francs. Repatriation provisions for the FMO staff are prepared and will be booked as from 2008.

Year: 2007	Repatriation in Geneva CHF	Repatriation in Brussels CHF	Repatriation in Brussels CHF (Euro fund)	*Repatriation in Brussels Euro (Euro fund)*
			ex.rate	*1.5898*
Opening carrying value	270,796	69,171	627,117	*394,463*
Into the Fund	67,032	-	219,906	*138,323*
Out of the Fund	(76,897)	(69,169)	(239,264)	*(150,499)*
Exchange adjustments	-	(2)	-	-
Closing carrying value	**260,931**	**0**	**607,759**	***382,286***

The provisions made for the repatriations in Brussels (CHF) were balanced out by the end of 2007.

The total carrying value is therefore:

	2007	**2006**
	CHF	CHF
Opening carrying value	967,084	859,103
Into the Fund	286,937	267,015
Out of the Fund	(385,330)	(176,414)
Exchange adjustments	(2)	0
Total Repatriation	**868,690**	**949,704**

7.2 Provision for Cooperation Programmes (Part II Fund)

Since 1985, the Association has participated, with the European Union, in numerous standardisation programmes. The carrying value of EFTA commitments totals CHF 2,734,879 as per 31 December 2007.

In order to make provisions to cover up for the commitments under Part II, the EFTA Council has established a Part II Fund (see C 3/99 of 10 March 1999). Its purpose is to meet long-term commitments related to cooperation programmes in Part II of the EFTA budget, including standardisation, as well as provide a buffer, should disbursements accelerate in any one year beyond budgetary planning. During the year 2007, no funds have been transferred to or from the fund. See also Note 10.

Part II Funds	**2007**	**2006**
Balance at 1 January	1,209,097	943,686
Transferred to the fund during the year	-	265,411
Provisions made during the year		
Balance at 31 December	1,209,097	1,209,097

8. Loans and borrowing

No loans were taken in 2007

9. Payables

Payables 31 December	**2007**			**2006**			
	Consolidated CHF	*Geneva CHF*	*Brussels EUR*	Consolidated CHF *2007 rate*	*Geneva CHF*	*Brussels EUR*	Consolidated CHF *2006 rate*
Accounts payable - Normal Operations	2,101,184	*427,666*	*1,052,659*	1,516,234	*134,794*	*868,940*	1,477,949
Due to Member States	0	*0*	*0*	0	*0*	*0*	0
Special Fund 1:	-157,719	*0*	*(99,207)*	103,902	*0*	*65,356*	101,023
Special Fund 4:	12,590	*0*	*7,919*	2,014	*0*	*1,267*	1,959
Special Fund 6:	362,579	*0*	*228,066*	895,578	*0*	*563,327*	870,757
Special Fund 7:	291,348	*0*	*183,261*	833,223	*0*	*524,106*	*810,131*
Total	2,609,982	*427,666*	*1,372,699*	3,350,952	*134,794*	*2,022,995*	3,261,819

10. Other liabilities and provisions

The Association has signed a number of multi-year cooperation programmes with the EU (PHARE, Medstat, statistical training). The total commitments have not been entered into the accounting system. At 31 December 2007, authorised standardisation commitments - not yet expensed - amounted to CHF 2,734,879 (CHF 2,270,571 on 31 December 2006). See also note 7.2.

11. Member States

The EFTA Council determines the distribution keys. For the period 1 July 1995 to 31 December 2007, the keys are as follows (EEA activities are calculated by setting Switzerland at 0).

Distribution keys of EFTA Member States

	Iceland	Liechtenstein	Norway	Switzerland
	%	%	%	%
1995: All	4.37	1.27	43.37	50.99
1995: EEA	8.92	2.59	88.49	-
1996: All	4.28	1.23	44.10	50.39
1996: EEA	8.63	2.48	88.89	-
1997: All	4.08	1.25	43.92	50.75
1997: EEA	8.28	2.54	89.18	-
1998: All	3.79	1.26	44.26	50.69
1998: EEA	7.69	2.55	89.76	-
1999: All	3.68	1.26	44.58	50.48
1999: EEA	7.43	2.55	90.02	-
2000: All	3.73	1.19	46.13	48.95
2000: EEA	7.31	2.33	90.36	-
2001: All	4.20	1.14	46.94	47.72
2001: EEA	5.09	0.72	94.19	-
2002: All	4.47	1.12	47.30	47.11
2002: EEA	5.16	0.71	94.14	-
2003: All	4.50	1.08	48.17	46.25
2003: EEA	4.69	0.66	94.65	-
2004: All	4.36	1.05	49.54	45.05
2004: EEA	4.43	0.63	94.94	-
2005: All	4.14	1.03	50.58	44.25
2005: EEA	4.36	0.64	95.00	-
2006: All	4.03	1.02	51.49	43.46
2006: EEA	4.52	0.64	94.84	-
2007: All	**4.24**	**1.01**	**52.31**	**42.44**
2007: EEA	**4.84**	**1.01**	**92.20**	-

Based on these keys, the status on the balance sheet of the accounts of Member States within the Association is as follows:

Source	Iceland	Liechtenstein	Norway	Switzerland	TOTAL
Surplus Part I 2004	0	0	0	0	0
Surplus Part II 2004	14,424	3,474	163,889	149,035	330,822
Returned to Member States 2004	0	0	-81,945	0	-81,945
Transfer to Part II fund 2004	-7,212	-1,737	-81,945	-74,518	-165,411
Surplus Part I 2005	0	0	0	0	0
Surplus Part II 2005	22,008	5,475	268,882	235,232	531,598
Returned to MS, rent comp FMO	1,592	225	33,406	0	35,224
Transfer to Part II fund 2005	-4,140	-1,030	-50,580	-44,250	-100,000
Surplus Part I 2006	0	0	0	0	0
Surplus Part II 2006	11,824	2,993	151,073	127,512	293,402
Returned to Member States 2007	-7,212	0	0	0	-7,212
Surplus Part I 2007	8,325	1,983	102,708	83,328	196,344
Surplus Part II 2007	0	0	0	0	0
Total	**39,609**	**11,384**	**505,489**	**476,340**	**1,032,823**

The transfer of the Norwegian surplus as of 2006 was not made in 2007, but will be made primo 2008.

The statuses of the Building Funds, in euros, are as follows:

Source	Iceland (€)	Liechtenstein (€)	Norway (€)	Switzerland (€)	TOTAL €
Transferred from Surplus Fund	6,393	1,576	67,946	153,235	229,150
Paid by Member States in 2004	40,600	9,741	0	332,323	382,664
Paid by Member States in 2005	0	0	466,007	0	466,007
Out of the fund 2005	-5,221	-1,257	-59,328	-53,951	-119,758
Out of the fund 2006	-5,221	-1,257	-59,328	-53,951	-119,758
Out of the fund 2007	-5,221	-1,257	-59,328	-53,951	-119,758
Total	**31,329**	**7,545**	**355,969**	**323,705**	**718,547**

12. Reserve Funds Part I and Part II

Based on the split of the surplus 2007, the balances of the Reserve Fund Part I and the Reserve Fund Part II are as follows:

Source	Reserve Fund Part I	Reserve Fund Part II	Total
Surplus 2004	710,331	137,681	848,012
Out of fund 2005	-129,137	0	-129,137
Surplus 2005	184,270	22,467	206,738
Out of fund 2006	-19,712	0	-19,712
Surplus 2006	166	4,166	4,332
Out of fund 2007	-459,000	-70,000	-529,000
Surplus 2007	742,412	4,193	746,605
Total	**1,029,331**	**98,507**	**1,127,838**
Max balance	1,029,331	172,061	1,201,392

13. Commitments

In Chapter 5, various commitments have been made in respect of cooperation programmes, see notes 7.2 and 10.

14. Evaluation of claims or possible claims

No claims or possible claims exist. The Service Sharing Arrangement with the FMO was not amended in 2007. A booking of an agreed amount of 316,329 was made and a provision of 18,000 was made to cover an unsettled amount.

15. Savings Fund

The Staff Savings Fund is not included in the Secretariat financial statements. The Savings Fund is open to all employees. During 2007 EFTA contributed CHF 2,018,177 to the Savings Fund.
Savings fund contributions can be made in four currencies (CHF, EUR, NOK and ISK) with either the investment bank Nordea or the Swiss National Bank.

16. Exchange rates

For reporting reasons all transactions in euros are converted to CHF using the exchange rate used when establishing the budget, 1 EUR = CHF 1.5898 (1.54574 on 31 December 2006). This is in line with the new practice approved by the external auditors and was established in 2003. All balance sheet overviews in this report show both the euros and the CHF value for balances in Brussels. The exchange rate difference from converting the euro balances into CHF with the rate of 1.5898 (budget and reporting rate 2007) instead of 1.54574 (rate used for the year-end balance 2006) has been identified in the Balance sheet overview for 2006 and the Cash Flow Statement for 2007. This exchange rate difference of CHF 5,121 is the difference between the exchange rate differences of the conversion of the surplus in Brussels 2006 (CHF 10,673.85) and the opening balance of the mirror accounts (CHF 5,552.55) which both have been recorded in the Profit and Loss in Geneva.

17. Cash flow statement

A cash flow statement is included with a comparison to the previous year.

18. Events subsequent to the balance sheet date

No significant events took place after 31 December 2007.

19. Financial instruments

The financial assets of the Association include cash and trade receivables. The financial liabilities of the Association are trade payables. The accounting policies for financial assets and liabilities are set out in note 1. The Association has not entered into any foreign exchange contracts.

a) Interest rate risk

No loans were outstanding at 31 December 2007.

b) Credit risk

Cash is placed with international banks with high credit ratings. Credit risk on receivables is limited, as clients are usually national or international organisations with high credit ratings. Trade receivables are not shown net of provision for bad and doubtful receivables. Such receivables are, however, identified in separate lists of receivables.

c) Fair value

The fair values of cash, trade receivable, trade payables, loans and borrowing are the same as their carrying amounts.

d) Hedges of anticipated future transactions

In 2007, the Association did not enter into any forward exchange contracts in order to hedge foreign currency assets or liabilities.

20. Interest income

Interest income is based on the contributions from the member States. All contributions, to the Secretariat and to the FMO, are deposit to one common bank account. A share of the income is therefore based on the FMO contributions as well.

EUROPEAN FREE TRADE ASSOCIATION

BOARD OF AUDITORS

The Chairman

Ref. 1085387
18 /2008
28 July 2008

Your Excellency,

We would hereby like to forward to you the report on the Compliance Audit which was carried out of the EFTA Secretariat and Financial Mechanism Office in February 2008. Please note that the EFTA Secretariat and Financial Mechanism Office have had the opportunity to forward their comments to the draft report on two occasions. Some comments from the institutions which have a direct bearing on the conclusions drawn are included in the report. We would very much welcome the comments and conclusions of the EFTA Council regarding the findings and recommendations in the report.

We would be pleased to answer any questions the EFTA Council might have pertaining to the compliance audit report, and would be prepared to participate in the meeting were the report is to be discussed if this is deemed desirable.

Yours sincerely,

[signed]

Per A. Engeseth
Chairman of the EFTA Board of Auditors

His Excellency Kristinn F.Árnason
Chairman of the EFTA Council
Avenue Blanc 49, 6th floor
CP 86, CH-1211 Geneva 20

cc: Ms Doris Leunberger, Director of Administration
Ms Stine Andresen, Director of the Financial Mechanism Office

EUROPEAN FREE TRADE ASSOCIATION

CHAIR OF THE EFTA COUNCIL

Our Ref. 1085355

Geneva, 27 August 2008

AUDIT OF 2007 ACCOUNTS

Dear Mr Engeseth,

On behalf of the EFTA Council, I would like to thank you for your letter of 10 June 2008 regarding the audit of the 2007 accounts. Let me address the issues that you raised in your letter.

1. Missing documents and higher number of human errors

The EBOA noted missing documents such as contracts and final rent agreements as well as an increased number of human errors.

The documentation referred to in your letter concerns Seconded National Experts, who as a group have a complicated background in terms of employment conditions. For those working for the statistical programmes in Luxembourg on the basis of the Memorandum of Understanding with Eurostat, the personal files are kept in the EFTA Statistical Office there, which handles many of the relevant issues. For experts hired to work in Brussels on the basis of Protocol 30 of the EEA Agreement, the Secretariat has in the past had limited administrative responsibilities and after June 2008 it will have none. It will however continue to be responsible for the secondment and administration of the two Seconded National Experts who work for the statistical programs. But as explained in the EFTA Management's letter, referred to in the External Auditor's Report for 2007, all relevant Secretariat internal guidelines will be reviewed and updated as necessary.

As regards the increased number of human errors in 2007, the Secretariat suffered an exceptionally high staff turnover in its Administration during that year with the corresponding difficulties, including the increased risk of mistakes and loss of institutional knowledge. All available means have been used to remedy the situation, including intensified recruiting and the exceptional prolongation of existing contracts. With a new Senior Finance Officer in place since May this year and a new Senior Human Resources Officer starting this autumn, every attempt will be made to stabilise the running of the Administration in the coming months.

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2. *Interest from Switzerland's contribution*

According to Regulation 7 of the Financial Regulations and Rules, Switzerland's payment (in CHF on 23.1.2007 and in Euros on 31.1.2007) falls into the period of 8 weeks after the adoption of the budget on 13.12.2006. Additionally the Council cannot recall any other formal agreement with the Secretary-General on the payment of the instalments. In order to improve the procedures, the Secretariat will come forward with proposals for the Council.

3. *FMO fixed assets*

FMO is aware of the policy regarding activation of fixed assets according to the International Financial Reporting Standards. The Secretariat will check the activation of fixed assets thoroughly in 2008 in order to comply with International Reporting Standards.

4. *Average stay of employees at the EFTA Secretariat*

The reasons for the decrease in the average stay of EFTA employees lie in the interplay of the dynamic and competitive job markets in the Member States and the parameters of the EFTA contract policy. Staff members coming from the public sector are often on leave from their national administrations and tend to stay towards the end of the 6 years period allowed by EFTA. In recent years, the ratio of public/private sector job applicants has changed with a corresponding increase in the percentage of staff with a private sector background. They tend to start looking for their post-EFTA employment and accept job offers well before the 6 years period expires to secure their continuing employment. In order to retain staff, the Secretary-General has adopted several measures, including increased training and development opportunities and more flexible working arrangements. At the operational level, the Secretariat's internal working processes and guidelines are continuously updated and strengthened to sustain its work.

Please accept the assurances of my highest consideration. I remain,

Yours sincerely,

Kristinn F. Árnason
Chair of the EFTA Council

Mr Per A. Engeseth
EFTA Board of Auditors
Pilestredet 42
P.O. Box 8130 Dep.
N-0032 OSLO
NORWAY

Compliance Audit of the EFTA Secretariat and Financial Mechanism Office

- FINAL REPORT -

EFTA BOARD OF AUDITORS

July 2008

Table of Contents

1 Introduction

On November 1st 2007 Mr. Per Engeseth, chairman of EFTA Board of Auditors (EBOA), informed the EFTA Council that EBOA would perform compliance audits of the EFTA Secretariat and Financial Mechanism Office (FMO) and that the compliance audits would form part of the annual financial audits for the financial year 2007. Compliance audit is defined by the International Organisation of Supreme Audit Institutions (INTOSAI) as the *„assessment of whether activities, financial transactions and information reflected in the financial statements are in accordance with the authorities which govern them".*

From December 18th to 21st 2007 the auditing team, Mr. Einar Johan Gørrissen and Mr. Pétur Vilhjálmsson, representing the EBOA Resource Group (ERG), visited the three EFTA institutions and the Financial Mechanism Office (FMO) for introductory meetings and to give and gather information necessary for the forthcoming audits.

The focus of the compliance audits was on the following issues for each of the institutions:

1. Administrative arrangements.
2. Remuneration.
3. Hours of work and outside activities.
4. Performance evaluations and salary increases.
5. Procurements.

In addition, a comparison was planned for selected parts of the Staff Regulations and Rules and Financial Regulations and Rules pertaining to the EFTA institutions.

The field work took place at the EFTA Secretariat and FMO from February 11th to 15th 2008.

The team would like to acknowledge the assistance and cooperation rendered to us by the staff at the EFTA Secretariat and FMO, which meant that the audits were carried out effectively and in a spirit of cooperation. At the end of the field visits, an exit meeting was carried out to inform the institutions of the preliminary findings.

The report on the compliance audit includes two parts. The first part sums up the main conclusions relating to the EFTA Secretariat and FMO, while part two focuses on the comparison of rules and regulations pertaining to all the EFTA institutions regarding certain areas. Part two of the report is thus identical for each of the EFTA institutions.

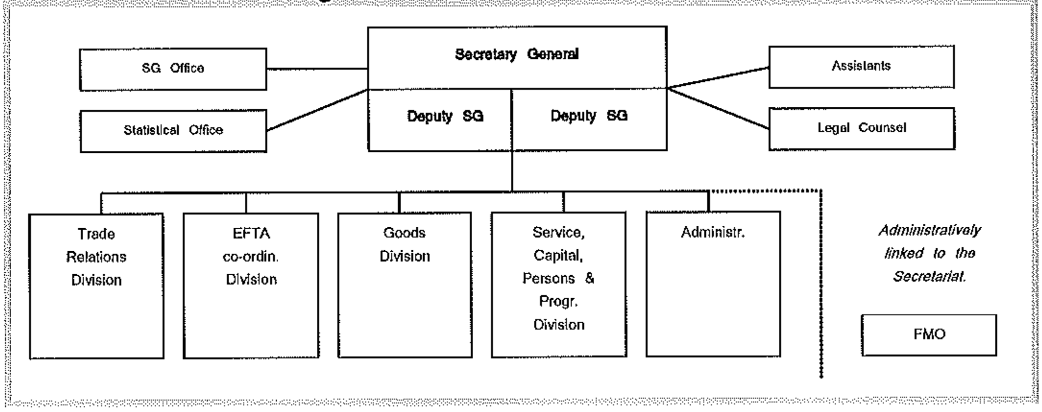
2 EFTA Secretariat and FMO

2.1 Administrative arrangements

Organisational chart

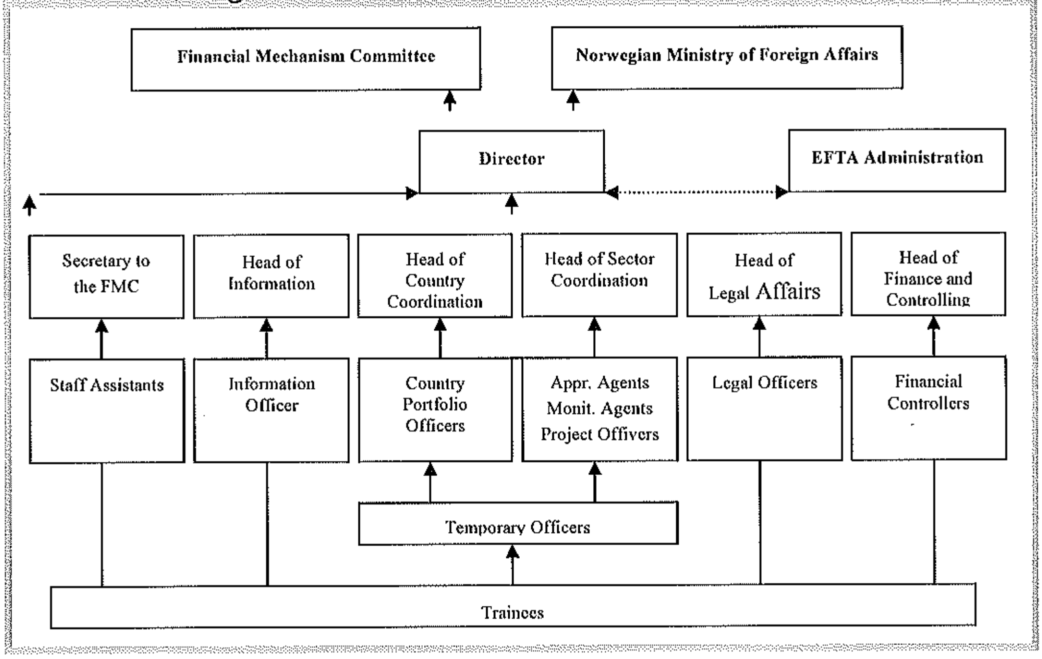
There is an approved organisational chart in place for the Secretariat. The organisational chart is depicted in figure 2.1

2.1 Secretariat, Organisational Chart



FMO also has an approved organisational chart in place which is depicted in figure 2.2.

2.2 FMO, Organisational Chart



The auditors were informed that FMO's organisational chart will be updated soon as a new division for monitoring and reporting will be formed. The position of senior environmental officer is currently not included in the organisational chart, and the auditors would thus recommend that FMO considers including this post when revising the organisational chart.

Job descriptions

The Secretariat has developed job descriptions for all posts. They are detailed and general for similar posts and include duties, requirements for knowledge and experience among with other things.

Job descriptions have also been developed for all staff at FMO. They describe tasks, responsibilities, qualifications, skills and who each staff member reports to. Job descriptions are already in place for the two new positions in the division for monitoring and reporting.

It was however noted that the FMO job descriptions were not uniform in terms of structure and the way information is categorised. For instance requirements for education are sometimes under "education" and sometimes under "qualifications". Sometimes the tasks are outlined in the general description of the job but in other cases outlined under "scope". Experience is also sometimes a part of "qualifications" and sometimes in a special chapter. The auditors would recommend that the job descriptions in FMO are harmonised in terms of structure and classification of information.

One staff member has two different jobs with FMO and therefore two different job descriptions; head of sector coordination and senior environmental officer. The auditors would recommend that the two positions are merged into one position with a corresponding job description.

Reply from FMO: The FMO has taken account of the comments from the auditors, and the job descriptions will be harmonized in terms of structure and classification of information. The employee holding a combination of two positions in the FMO will leave his position in the FMO later this month. The FMO will in its assessment regarding the replacement of this employee update the job description and the organizational chart according to the needs of the organization and ensure that the staffing at the FMO corresponds to updated charts and descriptions

Reporting

The Secretariat reports to EFTA Council biannually; first a half year reporting with status of 30 June and again in an annual report covering the full year, to be delivered by end of March the following year. The requirements regarding reporting and issuance of an annual report are met.

There are no established or stipulated regulations for how frequently FMO shall report to the Financial Mechanism Committee (FMC). The auditors were informed that there are on average around 9-10 meetings between the two bodies each year in addition to a continuous dialogue.

FMO received an assignment letter from the Norwegian Ministry of Foreign Affairs in August 2007 requesting that FMO should prepare annual reports by February 1 each year and a semi annual activity plan. FMO prepared both an annual report for 2007 and a semi annual activity plan for January through June 2008.

FMO does not report directly to the Standing Committee of the EFTA States. This is the responsibility of the FMC, but FMO plays an instrumental role in preparing these reports which are submitted annually. The auditors concluded that FMO fulfils the requirements regarding reporting.

Service sharing arrangement

FMO is administratively linked to the EFTA Secretariat, and the two have entered into a service sharing arrangement from 2006. The service arrangement was tested in a number of ways.

Firstly the calculations of invoiced amounts from the Secretariat in 2007 were tested and proofed to be correct.

The second test covered each parties perception of whether the stipulated services in the arrangement were provided or not and of what quality the services were. In general there was consensus on financially related and human resource management services but when it came to training there were somewhat differing perceptions of what was being provided. FMO was of the opinion that the Secretariat did not provide some of the training necessary for new personnel and IT-training for current staff. Also, FMO was of the view that some of the services provided by the Secretariat were not of the desired quality.

The auditors would recommend that the two parties discuss how to best address the issues regarding training and quality of selected services in order to improve the effectiveness of the arrangement.

Reply from EFTA Secretariat: The Secretariat and FMO will envisage regular meetings at least twice a year on assessing the administrative services rendered to FMO. General training issues as well as specific IT training will be discussed on these occasions. In addition, a quest back will be sent out to FMO in the autumn in order to assess the quality and satisfaction of the services delivered to FMO staff members.

The Secretariat and FMO agree on the need to revise the arrangement due to the changes in staffing levels at FMO, but disagree when it comes to the calculation of the cost for some of the services. The discussions on a revised service sharing arrangement did thus at the time of the audit seem to have stranded. The auditors were informed that there has not been any official dialogue on the issue since the end of August 2007. Currently FMO is being invoiced according to the existing arrangement. This means that the fee invoiced does not correspond to the actual administrative work carried out by the Secretariat.

The auditors recommend that the Secretariat and FMO renew their discussions on a revision of the arrangement with the goal of finding a solution acceptable to both parties that in the best possible way reflects the actual time spent on providing administrative services to FMO. A time reporting system at the Secretariat could be helpful on this matter. If the parties fail to reach an agreement on this issue by 31st August 2008, the auditors would recommend that the issue is forwarded to the EFTA Council for a decision.

Reply from EFTA Secretariat: Meetings have taken place between FMO and the Secretariat Administration and agreement has been found on the Service Sharing Arrangement. At this point in time the updated arrangement is in the signing process. The Secretariat is still of the opinion that the best way defining time allocated to deliver services to FMO are the keys presented in Annex I of the service sharing arrangement. To write down the exact time spent for administrative services to FMO is not possible due to the nature of the work (i.e. processing invoices and payments would have to be split into minutes of the working time of a finance assistant, and the workload for doing so is in no proportion to the benefits obtained). The position holder (i.e. HR Assistant) in the Secretariat who are solely working for FMO, have already been defined precisely and time is allocated accordingly.

During the audit the issue of administrative services provided by the Secretariat outside the service sharing arrangement also transpired. This refers in particular to legal costs/services for two cases regarding current and former FMO staff. Legal services are not currently included in the service sharing arrangement.

One of the cases refers to potential legal costs regarding a former employee of FMO. There is disagreement between the Secretariat and FMO on who should pay for these potential costs.

The second case refers to non-entitled allowances received by a current staff member of FMO. This issue has already involved financial costs in terms of legal services, and it is possible that the amounts involved will rise further. The Secretariat is of the opinion that these costs should be reimbursed by FMO due to the fact that they involve FMO staff. FMO on the other hand is of the view that they have not asked for the Secretariats assistance on this issue and consequently should not pay for the legal costs.

The auditors would recommend that the parties enter into a renewed dialogue on how to address the issue of who should pay for the legal costs. If no solution is found by 31st August 2008, the auditors would recommend that the issue is forwarded to the EFTA Council for a decision.

Reply from EFTA Secretariat: Discussions will be initiated and further continued with the aim of finding a solution this summer.

In addition to the issue of coverage of the legal fees, there is the issue of appropriate disciplinary action towards the staff member involved. The EFTA Staff Regulations and Rules, regulation 44, outlines the definition of misconduct and disciplinary measures. In the correspondence between the parties it is evident that the Secretary General views the matter as misconduct, and bases this on among other things a legal opinion obtained. This view is not shared by the person involved and the FMO management.

The EFTA Secretariat is invited to provide EBOA with information on which disciplinary measures that has been taken (or are planned to be taken) regarding this case and the rationale thereof.

Reply from EFTA Secretariat: In the case which the letter is referring to, the staff member in question received a formal written censure in accordance with Staff Regulation 44, Rule 44.2 after the case was settled.

EBOA would like to be informed of any developments in this case.

2.2 Remuneration

Travel

According to the EFTA Staff Regulations and Rules, rule 36.1, all official travel of staff members shall be authorised in advance by a superior. Five samples were taken at the Secretariat and five at FMO. The auditors found that all trips undertaken had the necessary authorisation. The same samples were tested for documentation and calculations. The auditors found no indication on non-compliance with the regulations and rules regarding travel.

Dependency benefits

Dependency benefits are regulated in the EFTA Staff Regulations and Rules, regulation 30, and are to be granted if dependants fall under the definition of dependents in regulation 2. Dependency benefits at the Secretariat and FMO were tested in three ways.

Firstly the right to claim benefits was tested. Seven samples were tested at both the Secretariat and FMO. For the samples tested, the staff members had handed in sufficient evidence thereby documenting their rights to claim the benefits.

Secondly the claims themselves were tested to see if they were in accordance with the EFTA Staff Regulations and Rules, rule 30.3, which states that an official form with information on dependants is to be completed before January 1st each year. For all 14 staff members tested these forms were in place.

The third test was on whether "necessary supporting evidence" was handed in along with the abovementioned forms. Birth certificates for newborn children are supposed to be handed in and so are pay slips if a spouse is reported to have started working but still claims some benefits. If the spouse is not claiming benefits nothing has to be handed in. Children over the age of 18 are supposed to hand in documents proofing they are full time students. For the samples tested, the auditors found that the practice in both the Secretariat and FMO was in compliance with the rule.

Rent allowance

The EFTA Staff Regulations and Rules, regulation 25, govern the procedures pertaining to rent allowances. Rule 25.4 outlines the calculations of allowances. Four samples were tested from the Secretariat and from FMO respectively. The first test was on entitlement to rent allowance. According to the regulation a staff member who pays rent exceeding 20% of his salary shall be entitle to rent allowance. In all eight cases, rent costs exceeding this threshold were documented.

The second test checked that staff members claiming rent allowance had handed in satisfactory evidence of the actual rent paid. Satisfactory in this respect would imply a copy of the rental contract. The auditors found that copies of the rental contracts were in place for all staff claiming rent allowance.

Thirdly, compliance to the EFTA Staff Regulations and Rules, rule 25.5, was checked. This rule states that if a staff member shares accommodation with a gainfully employed person that person's income shall be added to the staff member's income for calculation purposes. Six of the eight staff members tested had spouses, and none of the spouses were considered gainfully employed.

Lastly calculations of allowances were tested. In all the samples, the calculations were done correctly.

2.3 Hours of work and outside activities

Hours of work

The EFTA Staff Regulations and Rules, regulation 38, refers to hours of work. According to the regulation each staff member shall work a total of 40 hours a week. There is no recording of working hours at the Secretariat and FMO. Managers however trust their staff to fulfil the requirements and have no suspicion of staff members not following working hour regulations.

Because of the lack of time recording it is difficult to know how much time is spent on different tasks within the organisations. On an overall level this may cause inefficiencies and ineffectiveness with regards to task allocations, planning and also recruitment of new staff, as there is no proper overview of time spent at specific tasks. In addition, the fact that there is no time recording system has meant that there is no proper and documented account of how much time Secretariat staff spends on servicing FMO.

The auditors therefore recommend that the Secretariat and FMO consider the introduction of an ICT based time registration system, in order to help in the planning of activities and resource allocation, optimisation of recruitments and obtaining an overview of time spent on the activities falling under the service sharing agreement.

Outside activities

The EFTA Staff Regulations and Rules, regulation 10, makes it clear that no staff member shall accept any honour, decoration, favour, gift or remuneration from any government or source external to the Association, without first obtaining the approval of the Secretary General.

According to the Director of Administration, the Secretariat does not have any knowledge of staff having outside activities and such activities would not be accepted. The same is true for the staff at FMO; the Director of FMO has no knowledge of outside activities of FMO's staff and would not accept such activities.

2.4 Performance evaluations and salary increases

Performance evaluations

The EFTA Staff Regulations and Rules, regulation 21, covers salary issues. Rule 21.2 states that the Secretary General shall establish guidelines for performance evaluations of staff members. Such guidelines are in place and apply to both the Secretariat and FMO.

The first test on performance evaluations controlled whether staff evaluations were done at the right time, that is within the first six months of new employment and annually after that (a year after recruitment or renewal of contract). The conclusion of the auditors was that this was generally followed by both the Secretariat and FMO. The one noted exception was the staff evaluation for the Director of FMO who up until 2006 had been evaluated by the Chairman of FMO. No appraisal for 2007 was found at the time of the audit. The auditors have in due course been informed that the appraisal was carried out on 14 March 2008.

The second test on performance evaluations focused on whether the actual evaluations were carried out in compliance with the guidelines (e.g. that correct forms and scales were used etc.). In all tested cases it was found that the evaluations were in accordance with the rules.

Special step increase

For outstanding performance the Secretary General may, under rule 21.5, grant a special step increase to a staff member that shall not affect the staff member's eligibility for the yearly increase under rule 21.3. Salary increases, both the annual one step increases and special in 2007 were as follows.

2.3 Secretariat, salary increases in 2007

Step increase	Number of staff	Percentage
2 steps (special step increase)	2	4%
1 step	47	94%
No increase	1	2%
Total	**50**	**100%**

In total 50 staff members were eligible for a salary increase in 2007. 4% were granted double steps, 94% single step and one got no increase. At FMO the salary increases in 2007 were as follows.

2.4 FMO, salary increases in 2007

Step increase	Number of staff	Percentage
2 steps (special step increase)	5	28%
1 step	12	67%
No increase	1	6%
Total	**18**	**100%**

Out of 18 eligible staff members 28% got double steps, 67% single step and 6% no increase. The comparison between the Secretariat and FMO shows a considerable difference in the usage of special step increases. Whether the variations can be explained by differences in performance is difficult to say since performance is not evaluated by the same person at both organisations. The same was true to some extent in 2006, where substantially more FMO staff members got special step increases than the Secretariat's. It was also concluded that the use of special step increases in FMO was considerably higher than in the other EFTA institutions. The use of special step increases should, to the extent possible, be applied uniformly and in accordance with the same criteria across the EFTA institutions. The auditors would thus recommend that EFTA and FMO together with the other EFTA institutions enter into discussions on how to apply special step increases with the view of securing a uniform application of rule 21.5.

Reply from EFTA Secretariat: The practice of giving special step increases needs to be addressed within the framework of performance management. The Secretariat is currently in the process of evaluating the whole performance management process and will closely consult with the other EFTA institutions in order to ensure a possible common practice. However, as performance management is largely connected with the nature of activities, and as such a certain "marche de manoeuvre" needs to be given to each institution.

The auditors also compared staff evaluations and special increases to see if the staff members who scored highest in the staff evaluations were more likely to get special step increases. In short, while all staff members who did receive special step increases received very positive staff evaluations, no correlation between performance and special increases neither at the Secretariat nor at FMO were found.

Rule 21.5 states that it is the Secretary General who shall grant all special step increases. The auditors controlled that this was followed for all special step increases in 2007. In both cases at the Secretariat, the Secretary General had approved the increases.

At FMO however, none of the special step increases had been approved by the Secretary General but rather by the Chairman of the Financial Mechanism Committee. The approval of special step increases by the Chairman of the FMC is in non-compliance with rule 21.5. The auditors recommend that all special step increases are approved by the Secretary General in compliance with the Staff Regulations and Rules unless the rules regarding FMO are changed.

Reply from EFTA Secretariat: The Secretariat and FMO are aware of this and other practices not consistent with the Staff Regulations and Rules, carried out throughout the year 2007. Therefore, the rules regarding FMO's administrative responsibilities have been changed with the Standing Committee decision Nr 1/2008 of 13 March 2008.

Withholding of step increases

Rule 21.4 states that an adverse performance may lead to a withholding of step increases. In 2007 there were no adverse performance evaluations, and consequently no withholding of annual single step increases. One member of staff in the Secretariat did however not receive a step increase due to the reaching of top of the scale. The same applied to one member of staff at FMO (see point below).

[redacted]

[redacted]

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[redacted]

[redacted]

[redacted]

2.5 Procurements

Guidelines

The EFTA Financial Regulations and Rules, rule 10.2, states that a purchasing committee of at least three staff members, chaired by the Secretary-General, or someone he appoints, shall be formed and meet to consider purchases falling under the terms of rule 10.3. A report will be made for each meeting of the committee.

Rule 10.3 gives further details regarding procurements. Firstly it states that tenders from at least three suppliers shall be collected when a single purchase of service is likely to exceed 1 % of the approved budget. Secondly that tenders from at least three suppliers shall be collected when a single purchase of goods is likely to exceed 0.5 % of the approved budget, and thirdly that prices from three suppliers shall be compared and that one shall strive for a cost-effective solutions whenever possible for purchase of goods and services under the limits of 0.5 % and 1 % of approved budget.

Procurements in the Secretariat and FMO

The Secretariat had no major procurements in 2007. A minor procurement was however tested. The auditors concluded that the purchasing method used and documentation collected was in accordance with rules regarding procurements.

The auditors have been informed by FMO that the EFTA budget is used as a basis regarding the threshold limits of 0.5% and 1% respectively in 10.3. Bearing in mind the independent nature of FMO and the potential savings that can be made from competitive tendering, the auditors would recommend that FMO considers whether it would be more appropriate to base the threshold limits on the FMO budget.

Five major procurements were checked at FMO. For four of the procurements the procedures were found to be in line with the rules and regulations.

For one of the procurements checked, the development and furnishing of FMO's office, there was no purchasing committee or alike established and only two contractors were asked to present prices. Bearing in mind the total cost of the procurements of the furnishing services (those of the procurement of Cushman &

Wakefield and the amounts sub contracted by them) the auditors are of the view that a minimum of three quotations should have been sought and that a purchasing committee should have been established for the procurement.

At the time of the audit, no documentation was found regarding the subcontracting by Cushman & Wakefield. This information has however been obtained from Cushman & Wakefield and has been forwarded to the auditors in the aftermath of the audit. The auditors recommend that all documentation regarding procurements in FMO is stored centrally.

Reply from FMO: All documentation regarding procurements in FMO will be stored centrally.

In general the auditors would also recommend that FMO introduces a standardised format for evaluations of tenders and approvals of procurements.

Reply from FMO: The FMO will consider using standardised formats for evaluation of tenders and approval of procurements.

3 General Recommendations

One of the focuses of the compliance audit was to compare regulations, rules and practices at all three EFTA institutions within selected areas. This part of the report is identical to all the three EFTA institutions.

3.1 Rent allowance

Rent allowances are understandably different between countries and cities. For example the maximum monthly rent allowance in Luxembourg is around 20% higher than in Brussels. However, when looking into rent allowances it became evident that the maximum monthly allowance in Brussels is 1.7% higher in ESA than in the EFTA Secretariat. The reason for the difference lies in different methods of indexation. Although the difference is minor, there is no logical reason for any discrepancy in the amounts received by EFTA staff members residing in Brussels. The auditors would thus recommend that the two set of allowances are established at parity and also that rates are indexed the same way in all cities where EFTA staff members reside. Furthermore, the auditors would recommend that average rental costs for Brussels and Luxembourg are compared at regular intervals to ensure that staff at different locations receives similar benefits.

3.2 Working hours, overtime and holidays

There are variations in the rules and regulations pertaining to working hours and public holidays.

Fluctuations due to geographical location (i.e. between the EFTA Court which is based in Luxembourg and ESA and EFTA which is based in Brussels) are natural with regards to public holidays. It is more difficult to find any rationale for differing rules and procedures pertaining to public holidays for staff situated in the same country and city. The auditors would recommend that the EFTA institutions considers the rationale for differences pertaining to the use of public holidays and considers if/how these could be harmonised.

There are also differences between the EFTA institutions in terms of the core working hours for staff (i.e. when they have to be present). The auditors would again recommend that the EFTA institutions considers the rationale for differences pertaining to core working hours and considers if/how core working hours could be harmonised.

The rules for the Secretariat, ESA and the Court are identical when it comes to definition of overtime and compensation for it.

3.3 Recruitment of staff from non-EFTA countries

While ESA, the EFTA Court and the EFTA Secretariat normally are supposed to recruit staff members from the EFTA states, there are differences. In ESA and the EFTA Court, staff recruited from non-EFTA states can freely be recruited to both the A and B staff part of the organisation (in its capacity as an international organisation). In the EFTA Secretariat however any person from a non-EFTA country needs the approval of the Council for recruitment to the A category of staff. The auditors would like to ask for information on the rationale for the different procedures regarding recruitment of non- EFTA nationals in the EFTA institutions.

3.4 Procurements

The rules regarding the three EFTA institutions are currently not harmonised regarding the use of procurement committees and thresholds related to the use of competitive bidding. The auditors would recommend that the EFTA institutions considers the rationale for differences pertaining to procurement procedures and considers if/how these procedures could be harmonised.

3.5 Representation

Not all the EFTA Institutions have developed written rules and guidelines regarding the use of representational expenses (including home entertainment, external representation, internal representation, gifts etc), and representation is not used or regulated uniformly across the EFTA institutions. The auditors would recommend that the EFTA institutions considers the rationale for differences pertaining to representation and considers if/how these procedures could be harmonised.

3.6 Removals

While the rules outlined in the Staff Regulations and Rules of the various EFTA institutions are identical with regards to removal expenses, the auditors would recommend that the EFTA institutions consider increasing the number of minimum tenders for removal services from two to three. This is to ensure sufficient competition in tendering for removal services.

3.7 Daily Subsistence Allowance (DSA)

The auditors found that the amounts for DSA were on parity for staff in the three EFTA institutions. It was however noted that there was a difference in the level of DSA between members of staff on the one hand, and the Secretary General and Deputy Secretaries-General, the Members of the College and the EFTA Court Judges. The auditors would recommend that the EFTA institutions considers the rationale for the differences pertaining to DSA and considers whether the DSA rates should be harmonised.

EFTA EUROPEAN FREE TRADE ASSOCIATION

Ref. 21802

The Chairman of the Council

18 November 2008

Dear Mr. Engeseth

I refer to your letter dated 28 July 2008 and the report on the compliance audit of the EFTA Secretariat and the Financial Mechanism Office (FMO). The Council referred the report to the Budget Committee for scrutiny and consultation with the other EFTA institutions, as necessary. Thus, the Council is now in a position to present its conclusions to the EFTA Board of Auditors.

General comments

The Council expressed gratitude for the report on the compliance audit for the financial year 2007.

The Council welcomes the incorporation of the comments of the institutions. For the Secretariat they already indicate how recommendations will be or already have been dealt with.

Concerning the relationship between the Secretariat and the FMO, the Council would like to recall Standing Committee decision Nr. 1/2008 from 13 March 2008, where FMO's administrative responsibilities laid out in the Staff Regulations and Rules have been clarified.

Conclusions on the first part of the report (Secretariat and FMO)

Service Sharing Arrangement (SSA):

It is clearly in the interest of the EFTA Council to have a sound and updated arrangement regarding the rendering of services of the Secretariat to FMO. The Council has been informed that the SSA has been updated and signed by both parties in September 2008.

With regard to the details of the SSA, the Council is of the opinion that this falls under the managerial responsibility of the institutions which are trusted to maintain regular contacts on all issues to be discussed. The Council is regularly informed on matters pertaining to the execution of the SSA.

With regard to the legal costs, discussions have taken place between the Secretariat and FMO. A suitable solution will be found in due time.

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Hours of work:

The Council has received the following explanation from the Secretariat:

> The divisions of the Secretariat are not large and directors and their staff work closely together which provides transparency on working hours and efficiency. A lot of the work is of a cyclic nature; the periodic meetings and the necessary preparations and follow-up activities routinely require efforts which exceed the normal working hours. The same applies to the work of staff engaged in free trade discussions where long negotiating rounds and extensive international travel are frequently needed. The Secretariat's work in general, but in particular during periods of pressure, is accomplished through a high degree of flexibility by staff and managers. The Secretariat is of the opinion that the introduction of an ICT based time registration would inject an undesirable element of rigidity into the work environment and would not bring any economic benefits for the Member States.

The Council shares this view.

Conclusions on the second part of the report (the three EFTA institutions)

Rent allowance:

The Secretariat will consult the other institutions on the adjustment figures for the allowances for the budget 2009.

Working hours, overtime and holidays:

The Secretariat informed Council that the public holidays for 2009 were defined after consultation with the EFTA Surveillance Authority.

Recruitment of staff from non-EFTA countries:

The Secretariat has informed Council that normally, a sufficient number of qualified applications from EFTA nationals for A grade positions are received. The Council is consulted when the Secretariat proposes to recruit Non-EFTA nationals due to a lack of suitable candidates from EFTA States. The Council sees no need to change current practises.

The recruitment procedures are laid out in Regulation 11 of the Staff Regulations and Rules and have been consistently applied by the Secretariat for many years. The rationale for different procedures of the other institutions should be explained by their decision making bodies.

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Procurements:

The Council was informed that the rationale for the different procurement rules is due to the framework budget method in the Secretariat compared to a line budget method with certain specific funds for the other two EFTA institutions.

Representation and Removals:

The Council is of the opinion that due to the limited size of funds in question, it should be left to the institutions' managerial responsibility to establish and apply guidelines for the use of representation as well as the number for removal services tenders.

Daily Subsistence Allowance (DSA):

The Council was informed that the Secretariat will look into the matter of the DSA.

I would like to take the occasion to thank you for your readiness to meet with the Council and answer any questions pertaining to the compliance audit findings. In view of the clarity and comprehensive nature of the report, the Council is however of the opinion that such a meeting would not be necessary.

Yours sincerely,

Chairman of the Council

Kristinn F. Árnason

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cc: Mr. Kåre Bryn, Secretary-General of EFTA